

NATIONAL UNIVERSITY OF LESOTHO
BA SUPPLEMENTARY EXAMINATION
EC1402 – INTRODUCTORY MACROECONOMICS

AUGUST 2023

100 MARKS

3 HOURS

INSTRUCTIONS:

1. Answer **all questions** in Section A
2. Answer **any three questions** from Section B

SECTION A

MULTIPLE CHOICE QUESTIONS

1. In producing a sweater, a man who shears sheep pays a farmer M4 for a sheep's wool. The shearing shop sells the wool to a knitting mill for M7. The knitting mill buys the wool and makes it into a fine fabric and sells it to a sweater-making firm for M13. The sweater-making firm sells the sweater to a clothing store for M20, and the clothing store sells the sweater, gift wrapped, for M50. What is the contribution to GDP of the previous sales transactions?
- a. M4
 - b. M44
 - c. M50
 - d. M94

Table 23-1

An economy produces only two goods, oranges and DVD players. The quantities and prices for the years 2004 and 2005 are shown in the table. The base year is 2004.

	2004		2005	
	Price	Quantity	Price	Quantity
Oranges	M2	5,000	M3	4,000
DVD players	M400	1,000	M300	2,000

2. Refer to Table 23-1. Nominal GDP in 2004 is
- a. M402.
 - b. M12,000.
 - c. M200,200.
 - d. M410,000.
3. Refer to Table 23-1. Nominal GDP in 2005 is
- a. M18,000.
 - b. M180,000.
 - c. M612,000.
 - d. M1,250,000.
4. Refer to Table 23-1. The growth rate of nominal GDP in 2005 was about
- a. 10 per cent.
 - b. 49 per cent.
 - c. 78 per cent.
 - d. 100 per cent.

- 5. Refer to Table 23-1. The rate of inflation in 2005 was about**
- 48 per cent.
 - 24 per cent.
 - 33 per cent.
 - 67 per cent.
- 6. Refer to Table 23-1. The GDP deflator in 2005 is about**
- 0.76.
 - 0.67.
 - 0.51.
 - 1.32.
- 7. Refer to Table 23-1. Real GDP in 2004 is**
- M6,000.
 - M240,000.
 - M410,000.
 - M612,000.
- 8. Refer to Table 23-1. The growth rate of real GDP in 2005 was about**
- 24 per cent.
 - 50 per cent.
 - 97 per cent.
 - 125 per cent.
- 9. Refer to Table 23-1. Real GDP in 2005 is**
- M6,000.
 - M410,000.
 - M612,000.
 - M808,000.
- 10. Which price index measures the average price of things purchased by the typical family?**
- GDP deflator
 - producer price index
 - consumer price index
 - minimum wage
- 11. The four categories of expenditures that make up GDP are consumption, investment,**
- exports, and government purchases.
 - imports, and government purchases.
 - net exports, and government purchases.
 - net exports, and government transfer payments.
- 12. In the circular flow model, firms use the money they earn from selling their goods and services to pay for the**

- a. goods and services they buy on the product market.
 - b. resources they buy on the product market.
 - c. goods and services they buy from government.
 - d. resources they buy in the factor market.
- 13. Suppose you spend 30 per cent of your budget on food, 20 per cent on transport, 40 per cent on rent, 5 per cent on entertainment, and 5 per cent on miscellaneous items. If the price of all parts of your budget rises equally in percentage terms, which would have the most weight on your cost of living increase? (Assume you calculate your index the same way the CPI is calculated.)**
- a. Food
 - b. Transport
 - c. Rent
 - d. Entertainment
- 14. Marie grows vegetables in her garden to feed her family. The vegetables she grows are not counted in GDP because**
- a. it was not produced for the marketplace.
 - b. it is an intermediate good which Marie will process further.
 - c. the vegetables have no value.
 - d. it reduces the amount of vegetables she will buy from shops.
- 15. The good that receives the most weight in the CPI is the good that**
- a. consumers buy most frequently.
 - b. has experienced the greatest price increase.
 - c. has the highest price.
 - d. consumers spend the largest fraction of their income on.
- 16. Movements along the aggregate supply curve are caused by changes in**
- a. technology.
 - b. government regulations.
 - c. wages and salaries.
 - d. the price level.
- 17. Which item would receive the most weight in the consumer price index?**
- a. Salt
 - b. Toothpicks
 - c. Pencils
 - d. Food
- 18. If private investment increased by M50 billion while GDP remained the same, which of the following could have occurred, all else being the same?**
- a. Consumption spending decreased by M50 billion.
 - b. Exports increased by M50 billion.

- c. Imports decreased by M50 billion.
- d. Net exports increased by M50 billion.

19. The CPI differs from the GDP deflator in that the CPI includes

- a. raw material prices whereas the GDP deflator does not.
- b. only goods whereas the GDP deflator includes both goods and services.
- c. only services whereas the GDP deflator includes both goods and services.
- d. only items the typical household buys, whereas the GDP deflator includes all goods and services produced in the economy.

20. Ingrid maintains that she can predict when the economy is going to move up or down in a business cycle. In fact

- a. most economists can predict the business cycle.
- b. the business cycle is quite regular, with a new phase beginning every 24 months.
- c. business cycles are irregular and unpredictable in the short run.
- d. only the World Bank can predict moves in the business cycle.

21. In the circular flow model, the source of the factors of production used to create goods and services is

- a. the product market.
- b. the resource market.
- c. firms.
- d. households.

22. Real GDP is nominal GDP

- a. plus depreciation.
- b. adjusted for changes in the price level.
- c. minus depreciation.
- d. minus taxes.

23. Which of the following will cause the aggregate supply curve to shift to the right?

- a. Increases in wages and salaries paid to employees.
- b. Increases in the prices of oil and natural gas.
- c. Increases in taxes for business.
- d. Changes to work regulations that increase the productivity of labour.

24. Which of the following is true of international trade?

- a. International trade in services is not allowed.
- b. International trade benefits all participants equally.
- c. International trade increases overall economic efficiency.
- d. International trade reduces the total surplus enjoyed by an economy.

- 25. Which of the following statements is true?**
- Countries with lower investment in research and development (R&D) are likely to have higher standards of living.
 - The Industrial Revolution started in Africa and spread to other parts of the world.
 - The Industrial Revolution started in China and spread to other parts of the world.
 - Countries with a higher investment in research and development (R&D) are likely to have higher standards of living.
- 26. Majority of countries in sub-Saharan Africa are economically disadvantaged because infectious diseases spread in these countries relatively easily. This statement reflects the:**
- location hypothesis.
 - culture hypothesis.
 - geography hypothesis.
 - institutions hypothesis.
- 27. Which of the following may moderately reduce the geographical disadvantages faced by poorer countries?**
- Limiting the participation of poorer countries in international trade.
 - Transferring technology from richer to the poorer countries.
 - Restricting the immigration of skilled workers from foreign countries to the poorer countries.
 - Limiting the use of natural resources so that they can be preserved for future uses.
- 28. Suppose rapid economic growth in Botswana can be attributed to the culture hypothesis. Which of the following statements is most likely to be concluded from this claim?**
- Botswana must have large stocks of productive natural resources.
 - Institutions in Botswana must have been inclusive.
 - The local people in Botswana must be socially inclined to work hard.
 - Botswana must have a huge stock of physical capital.
- 29. Which of the following is a characteristic of an institution?**
- Institutions place constraints on the behaviour of economic agents.
 - Institutions are determined by individual opinions without considering the government's preference.
 - Institutions have very little influence on a nation's economic prosperity.
 - The institutions of a nation are permanent and cannot be changed over time.
- 30. Suppose a country's net exports equal zero. Which of the following will happen if the volume of imports increases without an increase in the volume of exports?**
- The country will experience a trade surplus.
 - The country will experience a trade deficit.

- c. The country will experience a budget deficit.
 - d. The country will experience a budget surplus.
- 31. Consider two countries—South Africa and Zimbabwe. Both countries were exactly similar in all aspects except for one. The institutions in South Africa are inclusive while the institutions in Zimbabwe are extractive. Given this information, which of the following statements is likely to be true?**
- a. South Africa is likely to have well-defined property rights, while Zimbabwe is likely to lack well-defined property rights.
 - b. Zimbabwe is likely to have well defined property rights, while South Africa is likely to lack well-defined property rights.
 - c. Both countries are likely to be totalitarian.
 - d. Both countries are likely to be capitalistic.
- 32. If an economy with extractive institutions allows for political creative destruction:**
- a. poverty in the economy is likely to increase.
 - b. the growth rate of the economy is likely to decrease.
 - c. new leaders are likely to replace old leaders.
 - d. innovation in the economy is likely to decrease.
- 33. Which of the following statements is true of foreign aid?**
- a. The concept of foreign aid was introduced in the 21st century.
 - b. Foreign aid is always efficient in eradicating poverty.
 - c. Foreign aid is only provided to sub-Saharan regions.
 - d. In some instances, foreign aid can be beneficial to dictators.
- 34. If the nominal interest rate in an economy is 4% and the real interest rate in the economy is 6%, the rate of inflation in the economy must be:**
- a. 2%.
 - b. 4%.
 - c. -2%.
 - d. 0%.
- 35. Which of the following is likely to happen when the CBL raises its policy rate?**
- a. The labour demand curve shifts to the left.
 - b. The long-run interest rate will fall.
 - c. The volume of economic activity will increase.
 - d. The labour demand curve shifts to the right.

- 36. Lesotho specializes in the production of jeans. However, the manufacturers of jeans in Lesotho are expecting the demand for its exports to fall sharply due to growing competition from other countries. Assuming all else equal, which of the following is likely to happen in this case?**
- Investment expenditure in Lesotho will rise.
 - The equilibrium unemployment in Lesotho will fall.
 - Consumption expenditure in Lesotho will fall.
 - The equilibrium real wage in Lesotho will rise.
- 37. Which of the following is likely to happen if an expansionary monetary policy is adopted?**
- Real wages will fall.
 - Equilibrium unemployment will fall.
 - The aggregate price level will fall.
 - The real interest rate will increase.
- 38. If the cash reserve requirement of the banking system is 20% and banks hold no excess reserves, then the value of the credit multiplier will be**
- 0.
 - 0,2.
 - 5.
 - less than 5.
- 39. The _____ demand for money arises out of the need to hold money as a medium of exchange. This demand for money is a function of _____.**
- precautionary; interest rates
 - transactions; national income
 - speculative; interest rates
 - precautionary; national income
- 40. If the central bank sells government securities in the open market, the supply curve of money will shift to the**
- left, and the interest rate will rise.
 - left, and the interest rate will fall.
 - right, and the interest rate will rise.
 - right, and the interest rate will remain unchanged.

SECTION B

QUESTION ONE

The table below uses data for the year 2003 provided by the BLS and adjusted to be comparable to U.S. data. All values are in thousands. Fill in the blank entries in the table. Show your work!

Country	Adult Population	Labor Force	Employed	Unemployed	Unemployment Rate	Labor-Force Participation Rate
Japan	111,000		62,510	3,500		
France		26,870		2,577		58.41
Germany	70,200	39,591			9.69	

[20]

QUESTION TWO

- a) Outline and explain **any four** social costs of inflation. [10]
- b) Outline and explain **any four** social costs of unemployment. [10]

QUESTION THREE

- a) Suppose that South Africa and Kenya are the only two countries in the world, and that labour is the only productive input. In South Africa, a worker can produce 15 barrels of wine or 10 bushels of corn per day. In Kenya, a worker can produce 5 barrels of wine or 5 bushels of corn per day. If free trade is allowed, which commodity will South Africa import? Which commodity will Kenya import? Explain. [10]
- b) What are the advantages and disadvantages of international trade? Explain. [10]

QUESTION FOUR

- a) A typical family on Katse Island consumes only apple juice, bananas, and cloth. Last year, which was the base year, apple juice was M4 a litre, bananas were M3 a kilogram and cloth was M5 a metre. A typical family spent M40 on apple juice, M45 on bananas and M25 on cloth. In the current year, apple juice costs M3 a litre, bananas cost M4 a kilogram and cloth is M7 a metre. Calculate,
- i) The CPI in the current year. (7)
- ii) The inflation rate between the base year and the current year. (3)

b) What type of unemployment does each of the following examples represent? Explain your answers.

- i.** Workers at Letseng Diamond mine are laid off as a result of the depressed state of the Lesotho economy. (2)
- ii.** Workers at a factory making cassette tapes lose their jobs when the firm goes bankrupt due to competition from compact discs. (2)
- iii.** Serame resigns from his occupation as a clerk with Maseru City Council to look for a better job. (2)
- iv.** Joseph used to work in a gold mine and lost his job after the price of gold fell and the mine closed. (2)
- v.** Lipalesa works as a tourist guide at Mahlasela Ski Resort during the winter months and does not work during summer months. (2)